




# The Origins of Terror

Implications for U.S. Foreign Policy



*By Jennifer Bremer and John D. Kasarda*

In the wake of 9/11, many have pointed to third world poverty as a primary driver of terrorism. While poverty has certainly contributed to the rejection of the West across parts of the Muslim (and non-Muslim) world, we believe it is not the central cause of such rejection.

Modernization, not poverty, is terrorism's source. While modernization is an overwhelmingly positive phenomenon, offering the only route to rising living standards for billions of people, it also plunges nations into an economic, political and social maelstrom that weak governance institutions are rarely able to contain. If we are to win the war on terrorism, we must recognize that it is not the poverty of the third world, but our shared failure to manage third world countries' transition out of poverty, that is endangering our nation as well as theirs.

Such understanding begins with recognition of the very new challenges posed by what we term the New Second World. This group of countries includes approximately three dozen nations that have reached middle-income status over the past two decades and that are now in the midst of the critical economic and political transitions from the third world to the first.

The New Second World transition has three phases. The first, or early phase, typically begins when a low-income country starts to industrialize rapidly, launching an agrarian-industrial transition and the complex transformations – urbanization, income growth, economic diversification – that accompany it. During this phase, incomes remain in the lower middle ranks. If, however, growth continues for a decade or more, the country reaches the middle New Second World phase. Industrial production per capita may now be around three times what it was when the transition started, and growth in low-value-added manufacturing is rapid and sustained. Incomes rise and a middle class begins to emerge. The future looks extremely promising at this stage, and the country seems to be well on its way toward first world status.

If this middle phase continues for 10 to 20 years, the country reaches the third, advanced New Second World phase. This phase is often a time of recurring economic crises and political turmoil. But properly managed, it does indeed complete the transition to first world status.

Countries currently in this advanced group include perhaps a dozen

## THE ORIGINS OF TERROR

nations, among them Brazil, Poland, Russia and Turkey, that have left behind their third world past of dictatorship, isolation and agrarian poverty. They face a first world future that promises prosperity and democracy, economic growth, and increasingly global trade. But to get there, they must overcome daunting institutional challenges.

status. Although they started the transition at about the same time as many of the advanced New Second World countries, this group has failed to move forward to the middle stage largely because of growth-limiting policies and institutional rigidities. History suggests that failure to make steady progress through the New Second World transition's early phase to the halcyon middle period is



**Terrorists of today: members of Al-Qaeda**

Right behind this group are a handful of countries enjoying the New Second World's go-go middle phase. These include two countries of great geopolitical significance: India and China. They have moved beyond the launch stage into full-scale industrialization. Growth, while uneven, has brought rising incomes to hundreds of millions. But rapid growth has also masked serious structural problems that must be addressed if they are to continue their move forward.

A third group is still in the early phase of the transition. Countries like Egypt, Iran and Saudi Arabia have reached middle-income

extremely dangerous. If the transition stalls here – as it did in post-World War I Russia, and as it has now in much of the Middle East – failure can lead to revolution and Al Qaeda-style international violence.

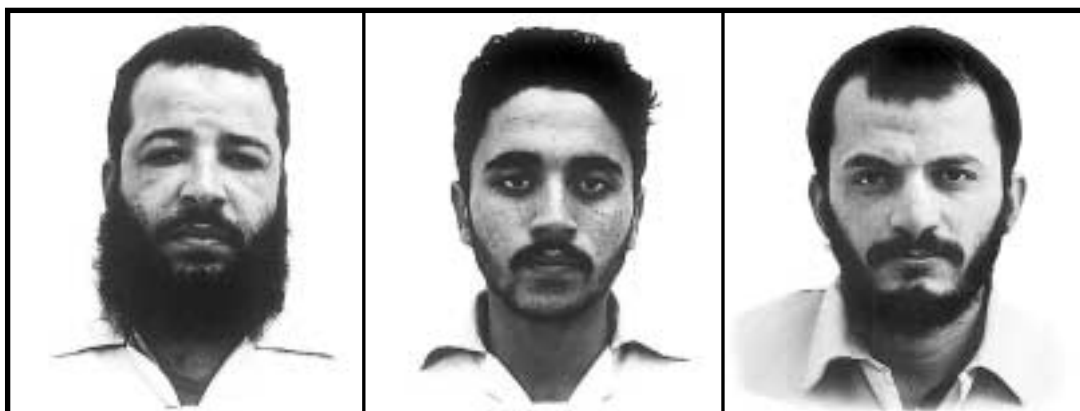
Together, the three groups forming the New Second World possess the economic scale and political scope to redefine global affairs. At the same time, the development processes going on within them generate stresses capable of endangering other nations, rich and poor. Even carefully managed, such stresses will periodically push these countries off the growth path, creating recurrent crises. But when the stresses of development are seriously mismanaged, especially in the early phase, these countries provide all the ingredients for a brew that cooks up into a powerful mix of economic stagnation, despair and

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criminal violence.

The emergence of the New Second World tests the ability of first world leaders to respond to the root causes of this condition – to recognize and then to deal with the threats to stability. Here, we build the case for a more active response to the challenge. We explore why the test is critical to U.S. leadership and why it constitutes a defining foreign policy

impose central control over all societal, economic and political decision-making and to minimize the scope for individual choice. The establishment of choice-based systems has always been a stated principle of U.S. foreign policy. The fundamental foreign policy objective in the coming decades should be to expand the community of nation-states relying on choice-based systems. Implanting



hurdle for the post-Cold War, post-9/11 world.

Throughout the article, we refer to “choice-based” systems, a term that encompasses both market-based economies and democratic political systems. Along both dimensions, the fundamental organizing principle in a choice-based system is decision-making by private individuals and organizations, rather than governments. Choice-based systems aggregate these individual decisions through a transparent system of laws and institutions that guide actions in the political and economic realm. Choice-based systems stand in contrast to command-based systems, in which economic and political decisions are made from the top down. Totalitarian communism and Islamic extremism both epitomize command systems, seeking to

democracy and market-led development, especially in countries in the early phase of the New Second World, is the only way to attack the origins of terrorism.

#### **WHAT IS THE NEW SECOND WORLD?**

New Second World countries cannot be understood either as well-off third world nations or as poor cousins within the first world. The first world countries passed through their own transition, the majority moving forward as a bloc from agrarian economies ruled by narrow elites into diversified industrial economies governed as democracies. Although such a major transformation cannot be dated with precision, the century from 1850 to 1950 saw the main building blocks put into place. Urbanization and industrialization fueled rising incomes,

## THE ORIGINS OF TERROR

corporations emerged to manage ever-more-complex economic activities, and the key institutions of democracy and macroeconomic management gradually displaced the back-room politics, pervasive corruption, and boom-and-bust cycles of the transition.

The economic hallmarks of New Second World status are periodic rapid growth coupled with industrialization, economic diversification and urbanization. New economic elites challenge traditional agrarian power. The emerging middle class drives a more

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inclusive and transparent political process and civil rights become a reality for the vast majority. The development of core governance institutions – from central banks to enforced civil rights laws – consolidates the gains and lays the basis for further growth.

We forget that our own transition was very rough going and was by no means certain to succeed. Indeed, some nations, like Russia, failed to make the transition, while others, like Germany, collapsed with horrifying global impact. No nation made the transition without serious crises, economic and political. In the first transition wave, countries now making up the first world were forced to find their way without a map. Between 1850 and the present, only one major nation – Japan – made it far enough to join Europe and America in the first world.

But the dynamic of development changed dramatically in the 1980s and early 1990s, when more than a dozen countries began to industrialize rapidly. Their economies enjoyed sustained annual growth rates of 5 percent or more that enabled them to reach levels of scale, diversification and institutional sophistication comparable to Europe and North America in the early 20th century. They have found the road more than a little bumpy, but have clearly made it out of the third world.

While the taxonomy of the advanced-phase New Second World may be debated, any list would have to include the ASEAN five (Indonesia, Malaysia, the Philippines, Singapore, Thailand), the Mercosur leaders (Argentina, Brazil, Chile), the advanced central European nations (Czech Republic, Hungary, Poland), and a number of others – notably Korea, Mexico, Russia, South Africa and Turkey.

An even larger group of early and middle New Second World countries stand in line behind them. If both India and China sustain their current growth during the coming decade, they will enter the difficult advanced stage. Next in line are perhaps two dozen other countries. Some appear well on their way toward the halcyon middle phase.

Another large group, however, remains stuck in the early phase. If they are able to embrace choice-based economic and political management, they should be able to move into the middle phase. This diverse group might include Egypt, Iran, Nigeria, Pakistan, Romania, Saudi Arabia and Venezuela – even perhaps a reformed Iraq or Cuba.

The success of this transition is no more assured than was that of the earlier period. To the contrary, many of the nations stuck in the early phase have proven unable to put their command-based pasts behind them and to



embrace the choice-based systems that underpin growth. Unable to progress into the rapid-economic-growth middle phase, they are in an unstable position that endangers both their progress and our security.

China and India, which have reached this middle stage, must be watched especially closely as they approach the advanced phase. Their passage could set immense destabilizing forces to work within countries that are nuclear powers, that together account for a third of the world's population and that share a long history of hostilities within the region. It is difficult to imagine a New Second World crisis in Mercosur leading to war between Argentina and Brazil, for example, but an economic collapse in China leading to military adventurism and global crisis is frighteningly plausible.

#### **DISTINGUISHING FEATURES OF THE NEW SECOND WORLD**

Although no country fits the profile exactly,

clear differences set off the New Second World from either the first or the third world. The experience of the OECD countries suggests that the transition process is bimodal, with periods of crisis in the early and advanced phase, separated by a middle period of rapidly rising prosperity. The early phase is often accompanied by significant instability, as old and new powers fight for control and emerging choice-based models contend with the established command-based systems. This instability can derail the process entirely, as is happening today in much of the Middle East. But many countries make it through to the boom years of the middle phase.

As this growth process matures, however, it outstrips the limited capacity of the country's governance institutions and a second set of crises strike. This typically begins in the financial sector, but spreads to become broader economic and political crises. They may become severe as the advanced stage proceeds, driven by a worsening imbalance

## THE ORIGINS OF TERROR

between a rapidly growing industrial sector and a weak, ill-regulated service sector.

**Economic Characteristics.** Given a reasonably permissive macroeconomic environment and a cooperative government, an entrepreneurial private sector can achieve very high rates of manufacturing growth and can sustain it for a decade or more. This is precisely what happens in a New Second World country as it moves into the middle phase. Eventually, though, rapid growth becomes unsustainable without a strong service sector – stable financial institutions, reliable power and telecommunications, and reliable transportation.

The weak government institutions of the New Second World impede the emergence of the strong service sector needed to sustain growth. None of the critical service industries can be built without the active engagement of both public and private sectors. Regulators have to be as skillful and responsive as the private-sector banks, power companies and telecommunications firms that they regulate. And this is where the late-stage of the transition runs into trouble.

Building the institutions and sophisticated regulation that the service sector needs is never easy. It is doubly hard with the weak government of a country newly emerged from the third world – and typically impossible in a dictatorship. Given a weak service sector, continued growth of the industrial sector eventually becomes untenable as well.

The demands on a weak service sector are particularly unmanageable in countries integrating rapidly into the global, choice-based economy – a process that is now an essential element of advanced industrialization. To play in this league, a New Second World country must put on Thomas Friedman’s “golden straitjacket” all at once, responding to global

markets that are much more complex and demanding than those faced by America and Europe in the early 20th century. While the global environment can be greatly beneficial to these countries, it also places strenuous demands on services. Their banks might have fit in quite naturally with American and European counterparts in the global economy of the early 20th century, but the financial markets of the early 21st century are another matter.

If this were a perfect world, New Second World governments would recognize their institutional capacity had fallen behind. And powerful economic interests, seeing the need for a well-regulated, competitive marketplace, would gladly accept stronger governance and reporting requirements. But in light of the United States’ own experiences, from the panics of the 1870s to the collapses of Enron and WorldCom, U.S. leaders should not rush to condemn the failings of New Second World economic managers.

**Political Characteristics.** The New Second World phase generally displays greater variance in its political features than in its economic structures. Chile under Pinochet and China under Deng were able to industrialize rapidly without abandoning command-based political systems. Conversely, India shows many democratic features, while retaining numerous command-based aspects in its economy. These imbalances tend to diminish with time; most advanced New Second World countries are soundly democratic.

The relationship between political and economic development remains complex. It may be no coincidence, for example, that India’s turn toward economic reform has been accompanied by the shift from decades of Congress Party dominance to more competitive, multiparty contests. The contrast between democratic Thailand’s very real

progress on reform after voters rejected the government that mismanaged the 1997 crisis and the chaos that overran Suharto's Indonesia demonstrates that democracy and economic reform can be mutually supportive.

Despite the benefits of the transition, it often brings wrenching social displacement. Old agrarian and new industrial interests contend for power, for example, as in our own Civil War. The equivalent political transition

bilizing. Indeed, this is terrorism's wellspring.

The early phase typically begins with the emergence of a private sector to take advantage of opportunities for industrial growth. Most of the new companies are family owned, with a poorly defined corporate structure and weak governance. But they flourish because competition is limited. The sudden increases in wealth lead to the emergence of a nouveau riche, whose ostentatious consumption

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in the United States saw three presidents (Lincoln, Garfield and McKinley) assassinated within a 40-year period.

### **WHEN THE NEW SECOND WORLD TRANSITION FAILS – THE ORIGINS OF TERRORISM**

The financial crises of the advanced New Second World countries can be as dramatic and destructive as the Great Depression or the current collapse in Argentina, but they are also powerful drivers of reform. Properly managed, late transition crises move countries forward to first world status.

No such benefits flow from the early New Second World crisis point. When countries start the transition from third world status but fail to provide adequate governance, market-based growth cannot be sustained. In this early stage, major transformations threaten traditional structures, but the new structures that will supplant them are not yet in place. A stalled transition in this early stage therefore generates stresses that can be extremely desta-

making the prevailing poverty of the traditional society all the more evident. The new economic elite discovers that restriction of competition and corruption are highly effective strategies for building wealth. These practices undermine the development of sound choice-based institutions.

At this point, the transition can go either way. If government provides an adequate basis for market-led growth, the country moves into the middle years of the transition. Rapid growth conceals underlying structural weaknesses, but it offers sufficient job creation and expansion of basic services to keep workers and the emerging middle class on board. Corruption and anticompetitive restraints remain prominent at this stage, but are easily overlooked in the go-go atmosphere.

If, however, government policies inhibit market-led growth, the emerging private sector may become increasingly inward looking. Instead of driving growth, it comes to rely on collusion with the government to enlarge its share of a fixed pie. A narrow elite achieves



## THE ORIGINS OF TERROR

significant wealth, but the trickle-down is just that – a trickle. In an increasingly urbanized setting, the absence of services leads to Dickensian living conditions. But hardships are not balanced by rising incomes.

The contrast between the new rich and everybody else leads to discontent and alienation, particularly among educated urban

ical of command-based systems in the early transition phase, but have choked off sustainable, private sector-based growth.

History warns that the stalled transition should not be ignored. In all of the countries launched into the agrarian-industrial transformation path during the first transition wave (roughly 1850 to 1950), powerful stresses gave rise to violent, utopian resistance



**Terrorists of yore: Gregory Zinoviev, Pierre Joseph Proudhon, Piotr Kropotkin**

youth. Denied both economic opportunity and legitimate channels to express their grievances, this group is vulnerable to arguments that the current system is irredeemable.

A number of countries in the early phase have fallen into this trap. They started down the path to industrialization along with the rest of the New Second World in the 1970s. But, like Russia and Spain in the early 20th century, their transitions stalled.

From Egypt, Nigeria and Pakistan to Kenya, Saudi Arabia and Iraq, the industrialization process started but never progressed into the sustained growth of the middle period. In each of these countries, the choice-based systems required to make the transition have been blocked by powerful command-based systems. These systems have achieved at best the spurious simulacrum of growth typ-

movements. Among these were the bomb-throwing anarchists who were the terrorists of their era.

Most of the democracies were able to master the transition, moving forward quickly enough to spread prosperity and overcome the backlash. But the countries that failed to move forward suffered gravely. Russia's stalled transition led directly to the Bolshevik Revolution and to generations of cold war devastation. Spain's failure channeled opposition into anarchism, fueling a civil war and decades of fascist repression.

September 11 signaled that the phenomenon of the anarchist backlash has returned. The origins of this new terror have been dangerously misread. Neither Afghan poverty nor Islam is the problem. Afghanistan's weak state and rugged terrain simply make it the perfect

cave of convenience for a movement whose origins lie in the stalled transitions of Egypt, Saudi Arabia and Pakistan.

September 11 was not the work of impoverished peasants, but of a new generation of anarchists in Islamic clothing. The recruiting ground is not the third world countryside, but cities where alienated young men are caught in stalled transitions. As in the previ-

while necessary to achieve security, cannot do the job so long as the conditions that drive young men to embrace terrorism persist.

Before exploring ways to deal with these dangers, we digress briefly to the New Second World's second danger point: the repeated economic crises of the advanced New Second World nations wrestling with complex institutional changes. As dangerous as stalling out



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ous century, bomb-throwing anarchists are led by charismatic, educated men drawn from largely middle- and upper-class backgrounds. Their forebears, men like Proudhon, Bakunin and Kropotkin, derived their inspiration from a distorted reading of Rousseau. The new anarchists have drawn on a perverted reading of the Koran.

Like its 19th century analogue, the messianic anarchists' message can be powerfully appealing: utopia can be reached by the violent overthrow of a corrupt system and the restoration of the natural order that capitalism displaced. This ideology attracts those who feel trapped on the wrong side of the window, looking at prosperity they cannot reach and that rewards corruption and immorality. Today's Islamic anarchists will not be defeated quickly or easily. Military action,

in the early phase can be, the crises of the advanced stage can be even worse.

#### **CRISES OF THE ADVANCED NEW SECOND WORLD: FROM GERMANY TO ARGENTINA**

As a country approaches the end of the middle phase, the future appears rosy indeed. Sustained industrial growth, having continued for a decade or more, has brought rapid and widespread rises in income. Poverty has fallen dramatically (although income inequality may have worsened), and a middle class has emerged.

However, from Mexico to Brazil to Thailand to Indonesia to Russia to Argentina to Turkey, this happy scenario has given way to crises in the countries that seemed to be doing the best. By calling attention to the

## **THE ORIGINS OF TERROR**

need to shore up the service sector, late New Second World crises can be a healthy phenomenon – if extremely unpleasant to those caught up in them. But when governments do not respond appropriately, the transition can fail at this critical stage. Just as policy failures in the early phase lead to a stalled transition, failure to navigate cycles of crisis can push an advanced New Second World country into collapse.

A small but critical group of advanced New Second World countries – Argentina, Indonesia, Turkey and Venezuela – now seem close to this precipice. Although real reforms have been made in each, they have proven unable to halt the downward slide. None will fall back to third world status. However, if they do not pull out of this slump they are in danger of sliding into the dark limbo first plumbed by Weimar Germany. In Germany's case, and in Japan, Italy and Spain, this collapse led directly to fascism and war.

Argentina and Turkey both face this danger. Yet, we are scarcely lifting a hand to pull them back from the abyss. Not every country that reaches the late stage of transition will become another Weimar, of course, but even those that are merely struggling with this transition deserve more attention.

### **FORMULATING A RESPONSE TO TRANSITION CRISES**

New Second World transition crises are development challenges to be sure, but a foreign aid strategy fashioned for the cold war does not constitute an adequate response. A clear-eyed assessment cannot fail to conclude that we must move aggressively to craft new tools suited to the distinct requirements of the early, middle and advanced stages.

Many of the countries at risk – Egypt, Saudi Arabia and Pakistan, for example – are

long-term allies where U.S. military action to change regimes is out of the question. Since United States security requires that we cease to tolerate policies that block the transition, we must find diplomatic means to foster the changes. In this context, foreign assistance emerges as one of the few tools on hand.

What is needed is not an increase in aid, which seems a stretch politically in any case. We need a redirection of aid's objectives to focus on the policy changes and institution-building needed to navigate the New Second World's dangerous early and advanced phases. Where aid managers have been reluctant to engage allies in tough dialogue on policies for growth, they must become forceful and must receive strong, proactive support from upper policy levels. Where Congressional leaders have used aid to advance parochial agendas, they must restore the focus on growth. Where resource-rich and middle-income countries have been excluded from assistance, we must develop alternative approaches that support their difficult transitions.

This activist approach would open us to charges of unwarranted interference in the affairs of sovereign nations, but we cannot accept this view. Putting the lid on this evil brew is a matter of self-defense, every bit as vital to our security as bombing the caves in Tora Bora. The next stage of this battle cannot be won in Afghanistan, but must focus on the much greater dangers posed by the educated, unemployed young men in the coffee shops of Cairo, Karachi and Jakarta.

Rather than merely disrupting terrorism, we must drive reform in these stalled transition countries. Only job-creating growth – and a U.S. commitment to achieving it – can stop the downward spiral leading to anarchism. Public diplomacy cannot overcome terrorism driven by real grievances – especially grievances founded on perceptions of



United States indifference, or worse.

The second transition crisis demands an equally aggressive but wholly different response. Advanced developing countries, including Brazil, Indonesia, Turkey and Thailand, are already important allies and valued economic partners. They are democracies and, except in crisis, much more stable than countries stuck in the early phase. Despite these strengths, they need our help in building institutions for sustainable prosperity. If we do not help, we forfeit global leader-

ship and send precisely the wrong signal to the endangered leaders of countries in the early transition phase.

Standing on the doorstep of the first world, the advanced New Second World countries can be valuable allies in addressing the stalled transition cases around them. We can realize this potential, however, only if we make them full partners in building reform in the early New Second World and third world nations. Allies like Turkey, Malaysia and South Korea have a key role to play in getting

## **THE ORIGINS OF TERROR**

the stalled transitions of the Middle East and Asia back on track. Their role is not to provide financial resources, but to complement the aid effort as investors, buyers and advisers to key Muslim countries from Morocco to Pakistan to Indonesia.

To use their strengths, however, we must also become partners in addressing the advanced New Second World countries' weaknesses. Too often, we treat the leaders of struggling middle-income countries as though they were recalcitrant students in the IMF's classroom, rather than democracies striving to implement difficult reforms. We are right to hold them to a high standard, but we should judge their performance by the modest standard of our own history.

When we faced these tasks at the turn of the previous century, we were scarcely more democratic than Turkey or Mexico is today. The United States of Jim Crow, smoke-filled rooms, and half-baked bank reform would win few IMF kudos today.

### **RETHINKING COOPERATION WITH THE NEW SECOND WORLD**

Can the United States foreign policy structure that served in the Cold War meet the very different needs arising from our increasingly important relationships with the New Second World? Yes, if the basic machinery is retooled to meet the new needs. Foreign assistance, in particular, must be restructured to overcome three barriers to its effectiveness:

1. Most of the nations stalled in the early phase receive foreign aid, but this aid is directed primarily to feel-good purposes and is rarely backed by high-level pressure for institutional reforms.
2. A critical group of resource-rich countries also face stalled early transitions. But because they do not need resource transfers,

they are cut off from badly needed technical assistance and institution-building support.

3. The advanced New Second World countries have been allowed to fall through the cracks, with no mechanism in place to provide technical assistance or reform support.

The tools are in place to help the early-phase transition countries, but are not effectively aimed. In the second and third groups, our embassies have neither the programs nor the expertise to help in areas like shaping financial institutions or designing environmental regulation.

Money is not the answer. In any case, a resumption of traditional aid would not be welcomed by the advanced New Second World and resource-rich nations in earlier phases. But the most compelling reason to reject the current foreign aid model is that the U.S. is much more than a disinterested adviser in their transition. Foreign aid policy has largely been conducted in isolation from the private sector, often focusing on sectors or issues of little interest to business. This model does not fit the New Second World.

Efforts to advance growth require the active involvement of U.S. business as a partner to government, rather than as a substitute. A collaborative model, drawing on the approaches used by our European and Japanese allies, is needed if we are to mobilize the necessary expertise and protect our own interests. For the advanced transition countries, we need a new structure in which government, business, nonprofit institutions and academia play active roles in mobilizing resources, delivering assistance or both.

Foreign aid programs are beginning to seek partnerships with the private sector and to engage stalled transition governments more forcefully, but there is still a long way to go on both counts. Initiatives such as the U.S. Agency for International Development's Glo-

bal Development Alliance and the proposed interagency Millennium Fund demonstrate that the Bush Administration is seeking new models for engagement.

Both of these experiments are in their early days, but the prognosis is not encouraging. The Global Development Alliance, which will finance partnerships linking the Agency for International Development, foundations and private companies in pursuit of shared development objectives, is a sound concept. But the program has been too modest in

focus on limited training for individuals, not on strengthening core governance institutions like central banks. Present rules bar programs aimed at technical areas, such as telecommunications regulation or water system investment – precisely the kinds of areas that need to be addressed.

Boldness is especially needed to deal with the stalled early-transition governments, which have resisted reform for decades. The danger that their continued intransigence poses requires that the United States adopt an

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scope to achieve real change. The Millennium Fund will direct government-to-government aid to reward good performers among the developing countries – particularly low-income countries that adopt a strong market-oriented stance – but will do little to support reform in middle-income countries. Moreover, neither of these experiments will reach the advanced or resource-rich transition countries, because only countries that receive bilateral aid can participate in them.

The Bush Administration's aggressive public diplomacy programs are an attempt to fill this gap. But as long as this initiative focuses on expounding our position rather than on dealing with the transition countries' problems, it will fall short. At the embassy level, professionals have long recognized the value of supporting reform in the advanced transition countries and pressed into service the very limited public-diplomacy tools available to answer transition leaders' requests for help.

But public diplomacy programs are not designed to support structural reform. They

interventionist approach, which would include the following:

**1. Close coordination across the full spectrum of United States foreign and economic policy institutions.** Coordination must also reach the trade agencies (Commerce and the U.S. Trade Representative), Treasury (for coordination with the multilateral banks and for financial sector reform) and the military. The role of Commerce, the Trade Representative and the military will be particularly important in the resource-rich nations, where their own business and military leaders play a central role in policymaking.

**2. Strong dialogues on democracy and economic liberalization.** These dialogues may sometimes best be carried out behind closed doors, but every opportunity for open dialogue must also be pursued to send a message of support to indigenous democratic forces.

**3. Definition of a timetable and promotion of initial steps toward market opening and political choice.** These may involve local elections, the broadening of permissible party

## THE ORIGINS OF TERROR

registrations, a crackdown on corruption or an easing of restrictions on public speech.

**4. Support with practical assistance channeled through both public and private institutions.** The U.S. Treasury and American banks, for example, offer complementary resources to support bank reform.

Early-stage transition governments will not welcome even these modest steps. We are in a new situation, however, in which the threat to U.S. security from messianic anarchism demands that we engage them on governance issues. If we can contemplate invading Iraq, we can open a dialogue on democracy with the Persian Gulf states.

Such a heavy-handed approach would be precisely the wrong tack to take with the advanced New Second World countries, however. Unlike the majority of the early-transition countries, the advanced New Second World countries are largely democracies whose governments understand the challenges before them. They are well aware, for example, that their financial regulation is weak, and their technocrats know the remedies available. Just as in our own country, however, understanding the problems does not lead automatically to an ability to tackle them successfully.

Most New Second World governments would welcome technical assistance from the United States parallel to that currently received from Europe, Australia, Canada and Japan. Our allies and competitors in Western Europe and Japan have not terminated development cooperation with the advanced transition countries as they contemplated complex reforms, but have programmed modest levels of assistance to integrate support to their business sector with technical cooperation. Our failure to offer practical support to advanced transition countries often paints

the United States as the global nag rather than a leader.

By failing to assist the advanced New Second World, we are also sending the wrong message to poorer countries. When the Andean nations look at Argentina, or when Egypt looks at Turkey, they see countries that have made Herculean efforts to launch their economies, but have crashed and burned. And they see a United States that is doing very little to help them back up.

A more open and collaborative post-foreign-aid approach will be needed to engage with advanced New Second World country governments, their business sectors and civil society. Based on the Kenan Institute's experience as a technical adviser in Thailand, we believe that a highly effective approach could be developed with a very small commitment of resources. Such an approach would allow advanced-transition governments to build binational public-private programs for reform as a counterpart to U.S. trade and security programs.

## LAST WORDS

An effective U.S. strategy must respond to the New Second World's special needs, recognizing that they are neither third world clients nor first world colleagues. To meet the needs of nations stuck in the early phase, our policies must replace tolerance of governments that block choice – and therefore economic growth – with an insistence on progress toward choice and away from command. With the advanced transition nations, our relationship must be built on partnership and mutual benefit, on helping them to manage the challenges of modernization.

The alternative – a global glass ceiling that prevents sustained advancement through the transition phases of the New Second World – is a recipe for disaster. **M**